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S E C R E T SECTION 01 OF 04 KATHMANDU 000937

SIPDIS

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STATE PASS TO SA/INS, EB/ESC/ESP, S/CT, INL/PC, INL/AAE
LONDON FOR POL/GURNEY
NSC FOR MILLARD
FBI FOR COUNTER-TERRORISM DIVISION
TREASURY PASS FINCEN
TREASURY FOR TERRORISM FINANCING TASK FORCE
TREASURY FOR OFFICE OF ENFORCEMENT/MONEY LAUNDERING

E.O. 12958: DECL: 05/09/2014

TAGS: PTER EFIN ETTC PREL NP

SUBJECT: NEPAL: TERRORIST FINANCE UPDATE

REF: A. A) SECSTATE 37211
 1B. B) 03 KATHMANDU 1175
 1C. C) 03 KATHMANDU 2096
 1D. D) 02 KATHMANDU 2254
 1E. E) 02 KATHMANDU 2306
 1F. F) KATHMANDU 813

Classified By: Charge d'Affaires Janet Bogue for reasons 1.5 (B,D)

SUMMARY

11. (U) The Government of Nepal (GON) indicates that no terrorist assets listed by the United Nations 1267 Sanctions Committee have been identified in Nepal and therefore, no accounts have been frozen. The U.S. Embassy in Kathmandu has no evidence of financial links in Nepal to international terrorists designated by the UN 1267 Committee. Most of the Government of Nepal's counterterrorism efforts are focused on controlling the Communist Party of Nepal (Maoist) (CPN-M), known as the Maoists, who have conducted a violent insurgency against the GON since 1996. As a result of explicit threats against U.S. interests, personnel and citizens, the United States Government added the Communist Party of Nepal (Maoist) (CPN-M) to the Terrorist Watch list in May 2003. In October 2003, this designation was upgraded under E.O. 13224 provisions to the Asset Freeze List; and, in May 2004, the USG added the Maoists to the Terrorist Exclusion List. High-level GON officials indicate that they appreciate these USG efforts. Although supportive of efforts in the global war on terrorism, the GON, specifically in the area of identifying and freezing terrorist assets, is hampered by institutional limitations, resource constraints, and the prevalence of informal banking systems ("hawala" or "hundi").

END SUMMARY.

NEPAL'S FRACTURED BANKING
SYSTEM YIELDED NO RESULTS

12. (C) The Government of Nepal (GON) reported that no terrorist assets listed by the United Nations 1267 Sanctions Committee have been identified in Nepal and therefore, no accounts have been frozen. The Embassy in Kathmandu has no indication that there are currently any links to international terrorists designated under 1267 Sanctions Committee operating in Nepal. However, poor financial record-keeping, lack of institutional capacity/know-how, the relative ease in with which individuals can change/conceal/purchase identities, and the existence of a crippled, debt-ridden financial sector make it difficult to track and identify the "money trail" through Nepal's fractured banking system.

13. (S) According to Rajan Singh Bhandari, the Executive Director of Nepal Rastra Bank (the Central Bank), the Central Bank successfully identified and seized roughly USD 65,000 from accounts of prominent Maoists in early 2002. All accounts were held at the Agricultural Development Bank of Nepal (REF B). No subsequent seizures of any kind have occurred. Bhandari and others within the GON believe that the Maoists no longer use the formal domestic banking system. This belief is shared by Finance Minister Prakash Chandra Lohani, who speculated that the Maoists have resorted to either the informal banking sector (hundi/hawala), bank robberies, extortions from tourists and businesses, and even to off-shore accounts in Singapore, Great Britain, Saudi Arabia, and Malaysia to finance their insurgency (REF C). (NOTE: Neither could provide specific details or evidence to this effect. END NOTE)

FOCUSED ON ITS DOMESTIC TERRORISTS

14. (U) Most of the GON's resources and counterterrorism efforts are focused on domestic terrorists, the Communist Party of Nepal (Maoist) (CPN-M), known as Maoists. For the

past eight years, Nepal has been plagued by a violent insurgency, affecting all but two of Nepal's 75 Districts and resulting in over 9,000 deaths. As a result of explicit threats against U.S. interests, personnel and citizens, the United States Government added the Communist Party of Nepal (Maoist) (CPN-M) to the Terrorist Watch list in May 2003. In October 2003, this designation was upgraded under E.O. 13224 provisions to the Asset Freeze List; and, in May 2004, the USG added the Maoists to the Terrorist Exclusion List. High-level GON officials indicate that they appreciate these USG efforts.

INSTITUTIONAL CONSTRAINTS

15. (U) The GON lacks the institutional capacity and resources to monitor financial transactions, not only of domestic insurgents, criminals involved in international money laundering and more importantly, international terrorist groups identified by the United Nations 1267 Committee. Currently, Nepal's Central Bank contains a nominal financial tracking unit with only four staff, which is responsible for coordinating with 41 domestic banks, 58 finance companies and over 200 "limited banks" or cooperatives, on the identification and tracking of assets held by terrorists or other criminals. The Tracking Unit lacks the sophistication and expertise to adequately fulfill this responsibility. (NOTE: In October 2003, Econoff was told that the unit was staffed by eight personnel. During a meeting with Central Bank officials in March 2004, unit staffing stood at four individuals, one of whom was the unit's secretary. END NOTE.) In fact, most financial records and transactions are performed and tracked by hand registries and cover both municipal and rural bank branches.

16. (SBU) Nepalese banks are not required, nor do they perform, due diligence on bank deposits. Bankers from Standard Charter, Nabil Bank, Nepal Bank Ltd, and the Central Bank told Econoff that deposits are "viewed as assets" and banks should be concerned with their liabilities. Only two banks, Standard Chartered and Nabil Bank, have taken steps to verify the identity of customers through a "Know Your Customer" information campaign for all accounts. These banks, however, have yet to institutionalize steps to identify and investigate suspicious transactions. Nor have they learned the value that public relations plays when embarking on a customer information campaign. In fact, Econoff was told by a U.S. government contractor residing in Nepal that he was "so upset" when he was asked for "proof" of his identity that he decided to change banks where he could be more anonymous. When this example was mentioned to Sujit Mundul, CEO of Standard Charter, he admitted that the early stages of their "Know Your Customer" public relations efforts were "a disaster" and translated into closure of accounts by many long-time customers.

CENTRAL BANK: THE LEAD ON IDENTIFYING AND TRACKING ASSETS?

17. (SBU) Rajan Singh Bhandari of the Central Bank told us that the GON "will always" circulate information on terrorist assets from the U.S. Embassy and other nations, as requested. He also mentioned that "every" terrorist finance list sent by the U.S. Embassy is passed to the Nepalese banking system, regardless of whether it falls under the UN 1267 Committee. Bhandari indicated that if an account was found that was identified only under U.S. Executive Order 13224, but not under UN 1267 Committee, the GON would need to "examine what steps, if any, would be taken under this scenario."

18. (C) When asked for his opinion regarding obstacles/needs to further cooperate on counter-terrorism finance, Bhandari, in a 180-degree shift from previous meetings with Emboffs, responded that the GON had "no obstacles" to combat terrorist financing and required "no assistance from the U.S. in this regard." (Comment. During several previous meetings with Bhandari, he had indicated that Nepal required "a large amount" of technical assistance, training and resources to fulfill its role in combating international terrorism and that the GON would welcome any form of USG assistance offered. During separate meetings with Econoffs, several expatriates bankers working on the World Bank's financial sector reform project referred to a "change in attitudes" within the GON against foreign involvement in its banking sector. The bankers mentioned a perception the Nepalese were increasingly viewing financial reforms as "foreign meddling" and all connected Bhandari's "Hyde-like" change in attitude with the March 2004 World Bank vote on its financial sector reform proposal. END COMMENT)

19. (SBU) The U.S. Embassy passes all lists of organizations and individuals pursuant to E.O. 13224 and United Nations 1267 Sanctions Committee designations to the GON, and the GON, through the Central Bank, routinely acts quickly to forward this information to the respective financial

institutions and includes instructions to freeze any accounts uncovered. The Central Bank does not perform "spot checks" on financial institutions to check the accuracy of compliance. The U.S. Embassy is unaware of any action taken to date to freeze accounts in Nepal. When asked the reason why accounts have not been frozen, GON officials assert that no accounts designated under UN 1267 Committee have been found.

¶10. (SBU) Bhandari admitted that most financial transactions occur in the informal, or hundi/hawala, banking system and that it is "nearly impossible" to track or monitor transactions in that realm. He estimates that over 75 percent of Nepalese workers' remittances enter through the informal "hawala/hundi" banking system. (NOTE: GON statistics estimate approximately USD one billion in remittance earnings. END NOTE) Nepalese society readily accepts the prevalence of the hawala/hundi; in fact, visa applicants applying at the U.S. Embassy often attribute large sums of income earned or missing to the hawala (i.e., they are either money lenders or borrowers). In addition, there are only two banks with nation-wide coverage, Nepal Bank Limited and Rastriya Baniyaa Bank. Both institutions are state-owned entities and are currently undergoing reform through the World Bank Financial Sector Reform project. Therefore, the hawala system fills a void in the Nepalese banking system.

PARTIAL LEGAL FRAMEWORK IN PLACE

¶11. (U) The Terrorism and Disruptive Activities Act 2002 (TADA) grants the GON sweeping authority to address any damage or destruction that undermines the peace or sovereignty of Nepal. It is TADA that gives the GON authority to mobilize and tackle its domestic terrorist matters and to address broader global terrorism trends, as identified under the UN 1267 Sanctions Committee. The Banking and Financial Institutions Ordinance of 2004 contains provisions granting the Central Bank the capacity to freeze accounts presumed to be associated with terrorist finances or activities. The Ordinance also grants the Central Bank the authority to cancel bank or financial institution licenses if they are found guilty of hiding or attempting to hide transactions associated with terrorist-related activities. The Foreign Exchange Regulations Act of 1962 (amended) places strict controls on the in/out flow of foreign exchange. For example, foreigners bringing in foreign currency that exceeds USD 2,000 must declare this at the port of entry, and any currency conversions above USD 2000 must be pre-approved by the Central Bank. Nepal has been a member of the Asia/Pacific Group since March 2002. The GON is preparing a draft anti-money laundering act based on Asia/Pacific Group's Financial Action Task Force's (FATF) 40 + 8 Recommendations on money laundering and terrorist finance. However, no solid action has occurred. Nepal has yet to establish a Financial Intelligence Unit (FIU), nor does it have the legal framework or financial intelligence in place to lay the groundwork for such an organization. Post submitted an INL proposal to develop, equip and train a Financial Intelligence Unit in Nepal (Ref F), which also includes an assessment of GON's capacity to implement FATF recommendations.

¶12. (U) Nepal is a party to the following UN anti-terrorism conventions:
-- Convention on Offenses and Certain other Acts Committed on Board Aircrafts, 1963;
-- Convention on Suppression of Unlawful Seizure of Aircraft, 1970;
-- Convention on the Suppression of Unlawful Acts Against the Safety of Civil Aviation, 1971;
-- Convention on the Prevention and Punishment of Crimes Against Internationally Protected Persons, including Diplomatic Agents, 1973;
-- Convention Against the Taking of Hostages, 1979; and,
-- Convention for the Suppression of Unlawful Acts Against the Safety of Maritime Navigations, 1988.
Nepal has also signed the International Convention for the Suppression of Terrorist Bombings, 1997. In addition, Nepal is a party to the SAARC Regional Convention on the Suppression of Terrorism and recently signed the SAARC Additional Protocol on the Suppression of Terrorism.

COMMENT

¶13. (S/NF) Although the GON has been supportive in the global war against terrorism, the Embassy doubts whether the GON has the institutional strengths needed to track financial transactions or to identify suspicious funds within its domestic banking system. Post has been told that Nepal is not identified by the interagency Terrorist Finance Working Group as a priority country for anti-money laundering or counterterrorist finance assistance. Although Nepal has the potential to be a transit point for terrorist finances, there is no evidence that this has happened to date nor do there seem to be any verifiable links to international terrorist

organizations. Given the general lack of institutional capacity and sophistication within this area, Post requests that its INL proposal (Ref F) be given due consideration. END
COMMENT

BOGUE